

**Charlotte Public Schools
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Charlotte Public Schools

Charlotte, Michigan

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June 30, 2006

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Charlotte Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charlotte Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006 on our consideration of Charlotte Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charlotte Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

This section of Charlotte Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Charlotte Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Charlotte Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds, Debt Service Funds, 1999 Bond Project Fund and the 2002 Bond Project Fund, collectively as other nonmajor governmental funds. The remaining statements, the statement of fiduciary net assets, and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service, Athletics, Performing Arts and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative management approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- A board policy which requires a balanced budget with a fund balance goal of 12 percent of annual expenditures.
- The establishment of fund balance designation at the fund financial statement level for future technology replacement.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the District's eight employee groups.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2006.

Condensed Statement of Net Assets as of June 30, 2006 and 2005		
	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current and other assets	\$ 9,815,929	\$ 9,605,123
Capital Assets	<u>59,727,867</u>	<u>61,548,409</u>
Total Assets	69,543,796	71,153,532
Liabilities		
Current Liabilities	7,159,450	7,434,724
Noncurrent Liabilities	<u>59,633,240</u>	<u>59,737,687</u>
Total Liabilities	66,792,690	67,172,411
Net Assets		
Invested in capital assets, net of related debt	(941,047)	523,613
Unrestricted	<u>3,692,153</u>	<u>3,457,508</u>
Total Net Assets	\$ 2,751,106	\$ 3,981,121

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Analysis of Financial Position:

As detailed above, the District shows a positive total net asset value of \$2,751,106 for the fiscal year ended June 30, 2006. This statement has been affected by the following factors:

- Major construction projects became necessary to replace worn out facilities to meet the needs of students. Construction of new facilities and major modifications to other facilities began in 1999 and continued through the 2005-2006 year.
- Significant debt, (\$62.8 million) was incurred by the District in 1999 and 2002 to pay for the facility modification projects.

Results of Operations:

For the fiscal year ended June 30, 2006 and 2005, the district-wide results of operations were:

Condensed Statement of Activities Year Ended June 30, 2006 and 2005		
	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program Revenues		
Charges for Service	\$ 1,557,022	\$ 1,439,858
Operating and Capital Grants	2,476,277	2,622,667
General Revenues		
Property Taxes	5,976,860	5,606,032
State School Aid-unrestricted	21,058,411	20,428,222
Other	961,354	568,868
Total Revenues	32,029,924	30,665,647
Functions/Program Expenses:		
Instruction	15,319,110	14,557,214
Supporting services	8,855,415	8,687,699
Community services	1,123,818	815,539
Food service	1,129,386	1,031,251
Athletics	556,303	573,320
Interest on long-term debt	3,378,340	2,120,194
Other	751,148	878,892
Unallocated depreciation	2,454,107	2,012,402
Total Expenses	33,567,627	30,676,511
Change in Net Assets	\$ (1,537,703)	\$ (10,864)

Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$1,537,703. Several factors which helped cause the reduction are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues from governmental fund operations exceeded expenditures by \$269,048 for the fiscal year ended June 30, 2006. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, district assets depreciated in the amount of \$2,454,107 and an additional \$633,565 in capital assets to be depreciated in the future. This caused a net reduction in net district assets of \$1,820,542.

C. Long-Term Debt Activities

The District reduced its long-term debt obligation during 2005-2006 by amortizing deferred amounts and making principal payments amounting to \$1,341,465. Additional debt of \$960,417 in the form of principal and interest accrued on outstanding debt was incurred by the District during the fiscal year through the State of Michigan School Bond Loan Fund and accrued severance pay was reduced during the year by \$2,582. The District sold \$7,500,000 of Refunding Bonds as a means of refinancing its existing 2002 Debt, thereby reducing long-term debt by \$490,000. As a result of these activities, net district long-term debt liabilities increased by \$106,370.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets decreased by \$1,537,698. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Charlotte Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations exceeded expenditures by \$105,579 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, had a fund balance of \$3,023,746 or 11.4% of expenditures for the 2005-2006 fiscal year. The School District made approximately \$998,000 in budget reductions prior to the 2005-2006 fiscal year and most likely will have to continue these reductions for 2006-07 unless funding from the State of Michigan improves.

B. Debt Service Fund Operations

The Debt Service Funds consist of five separate debt funds as follows: 1999 Debt, 2002 Debt, 2005 Debt, 2006 Debt, and Durant Debt. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$429,999 in fund equity available for future bond payments.

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2006, the School District borrowed \$774,306 in principal and an additional \$186,111 accrued in interest on the outstanding balance and the School District has a total obligation of \$4,593,636 to pay back to the Michigan School Bond Loan Fund including interest. The District also had Durant resolution bonds and accrued severance pay outstanding at June 30, 2006, which totaled \$275,091. The District issued \$7,500,000 in 2006 Refunding Bonds in the current year, all of which was outstanding at year-end. The District paid principal and then defeased a portion of the 2002 Bonds in the current year amounting to \$7,010,000 to leave \$13,365,000 outstanding on those bonds at year-end. The District also paid \$800,000 on the 1999 bonds and \$75,000 on the 2005 bonds to leave outstanding balances at year-end on these bonds of \$2,700,000 and \$33,630,000 respectively. A detailed presentation of the District's long-term debt is presented in Note E of the notes to the financial statements.

C. School Service Funds

The Charlotte Public Schools also has school service funds that include the following: Food Service Fund, Athletics Fund and Performing Arts Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2005-2006 the Food Service Fund had revenues of \$1,154,816 and expenditures of \$1,205,386. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$143,795.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2005-2006 the Athletics Fund had revenues of \$599,066 and expenditures of \$556,303. The Athletics Fund generated \$246,214 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$352,852 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$90,205.

The Performing Arts Fund is a fund that reports activities of the professional performances at the Charlotte Performing Arts Center, including facility rentals. In 2005-2006 the Performing Arts Fund was generated with revenues of \$248,574 and had expenditures of \$248,574. The Performing Arts Fund required a transfer from the General Fund of \$31,667 to balance the fund. At the conclusion of its second year of operation in 2005-2006, the Performing Arts Center had a fund balance of \$282.

D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$1,820,542 during the fiscal year. This can be summarized as follows:

	Balance June 30, 2005	Net Change	Balance June 30, 2006
Capital assets	\$ 79,566,056	\$ 455,945	\$ 80,022,001
Less: accumulated depreciation	(18,017,647)	(2,276,487)	(20,294,134)
Net investment in capital outlay	<u>\$ 61,548,409</u>	<u>\$ (1,820,542)</u>	<u>\$ 59,727,867</u>

In 1999, Charlotte Public Schools voters approved a \$40,660,000 general obligation bond issue. In 2001, another general obligation bond issue totaling \$22,175,000 was approved by voters. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities.

IMPORTANT ECONOMIC FACTORS**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count
- c. The District's nonhomestead property valuation

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Charlotte Public Schools foundation allowance was \$6,875 per student for the 2005-2006 school year. This is an increase of \$175 from Charlotte Public Schools 2004-05 foundation allowance of \$6,700 per student.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 3,413 students. The District's enrollment increased slightly from the prior school year's Fall student count.

The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	3,413	38
2004-2005	3,375	16
2003-2004	3,359	23
2002-2003	3,336	8
2001-2002	3,328	24

D. Property Taxes levied for General Operations (General Fund Nonhomestead Taxes)

The District levies 18.0000 mills of property taxes for operations (General Fund) on Nonhomestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's nonhomestead property tax revenue for 2005-2006 fiscal year was \$2,324,583. The nonhomestead tax revenue increased by 6.5% over the prior year.

In June 2003, the District was successful in passing a Headlee Ballot Proposal which will have the effect of allowing the District to levy during the succeeding five years the full 18 mill nonhomestead millage for operations as originally approved by voters in 1996. The 18 mill levy was renewed in May of 2006 for a period of ten years.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and nonhomestead.

For 2005-2006 the District's debt millage levy was 7.59 mills, which generated revenue of \$3,543,461.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	25,948,057	26,380,017	26,386,406	(1.7%)	.0%
2004-2005	25,313,947	25,870,701	25,812,897	(2.0%)	.2%

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	25,948,057	26,440,364	26,491,985	1.9%	.2%
2004-2005	25,313,947	25,724,736	25,736,726	1.6%	.0%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Charlotte Public Schools amends its budget periodically during the school year. The May 2006 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 25,948,057	100.0
Total Expenditures Final Budget	<u>26,380,017</u>	<u>101.7</u>
Increase in Budget Expenditures	<u>\$ 431,960</u>	<u>1.7</u>

The District's actual expenditures were more than the final budget by \$6,389 or .02 percent.

Some of the significant changes in expenditure budgets for the year include:

- Interest expense on borrowing for operations was increased by \$37,155
- Basic instruction costs were increased by \$138,538 compared to the original budget.
- Added needs costs decreased by \$66,788.
- Operation and maintenance costs increased from \$579,537 to \$792,482 primarily due to utility rate increases for natural gas.
- Support service instructional staff budgets were increased by \$68,649

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 25,948,057	100.0
Total Revenues Final Budget	<u>26,440,364</u>	<u>101.9</u>
Increase in Budget Revenues	<u>\$ 492,307</u>	<u>1.9</u>

The District's final actual general fund revenues differed from the final budget by \$51,621, a variance of .2% from the final budget.

The Final revenue budget reflects the following changes from the Original Budget.

- State aid was increased by \$352,400, due to increased student count.
- Federal funding for grants was increased by \$40,546.
- Property tax levy revenue increased by \$64,000 when adjusting from an estimate to actual of taxable property valuations.
- Earnings on investments increased by \$25,000.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 fiscal year budget was adopted in May 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Charlotte Public Schools, 378 State Street, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

Charlotte Public Schools

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,721,003
Investments	107,760
Accounts receivable	45,487
Taxes receivable	130,624
Due from other governmental units	4,268,904
Inventories	63,964
Prepays	13,353
	<hr/>
Total current assets	9,351,095
Noncurrent assets	
Deferred charges, net of amortization	464,834
Capital assets not being depreciated	220,496
Capital assets, net of accumulated depreciation	59,507,371
	<hr/>
Total noncurrent assets	60,192,701
	<hr/>
TOTAL ASSETS	69,543,796
LIABILITIES	
Current liabilities	
Accounts payable	326,459
Accrued payroll	1,406,769
Other accrued liabilities	933,607
Due to other governmental units	376,544
Accrued interest payable	537,813
Deferred revenue	39,847
Short-term notes payable	2,000,000
Current portion of accrued severance	11,737
Current portion of long-term debt	1,526,674
	<hr/>
Total current liabilities	7,159,450
Noncurrent liabilities	
Accrued severance payable	26,166
Noncurrent portion of long-term debt	59,607,074
	<hr/>
Total noncurrent liabilities	59,633,240
	<hr/>
TOTAL LIABILITIES	66,792,690
NET ASSETS	
Invested in capital assets, net of related debt	(941,047)
Unrestricted	3,692,153
	<hr/>
TOTAL NET ASSETS	\$ 2,751,106
	<hr/>

See accompanying notes to financial statements.

Charlotte Public Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 15,319,110	\$ 27,028	\$ 1,503,077	\$ -	\$ (13,789,005)
Supporting services	8,855,415	29,798	252,723	9,426	(8,563,468)
Community services	1,123,818	639,453	72,187	102,023	(310,155)
Food Service	1,129,386	640,173	511,425	-	22,212
Athletics	556,303	220,570	-	25,416	(310,317)
Interest on long-term debt	3,378,340	-	-	-	(3,378,340)
Other	751,148	-	-	-	(751,148)
Unallocated depreciation	2,454,107	-	-	-	(2,454,107)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 33,567,627</u>	<u>\$ 1,557,022</u>	<u>\$ 2,339,412</u>	<u>\$ 136,865</u>	(29,534,328)
General Revenues					
Property taxes					5,976,860
State school aid - unrestricted					21,058,411
Investment earnings					124,663
Special Education county allocation					250,951
Miscellaneous					585,740
TOTAL GENERAL REVENUES					<u>27,996,625</u>
CHANGE IN NET ASSETS					(1,537,703)
Net assets, beginning of year					3,981,121
Prior period adjustments					307,688
Net assets, end of year					<u>\$ 2,751,106</u>

See accompanying notes to financial statements.

Charlotte Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,164,309	\$ 1,556,694	\$ 4,721,003
Investments	107,760	-	107,760
Accounts receivable	38,851	6,636	45,487
Taxes receivable	69,442	61,182	130,624
Due from other funds	267,811	17,647	285,458
Due from other governmental units	4,265,732	3,172	4,268,904
Inventories	51,407	12,557	63,964
Prepays	9,739	3,614	13,353
TOTAL ASSETS	\$ 7,975,051	\$ 1,661,502	\$ 9,636,553
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 243,005	\$ 83,454	\$ 326,459
Accrued payroll	1,386,988	19,781	1,406,769
Other accrued liabilities	917,042	16,565	933,607
Due to other funds	4,997	280,461	285,458
Due to other governmental units	376,544	-	376,544
Deferred revenue	22,729	17,118	39,847
Short-term notes payable	2,000,000	-	2,000,000
TOTAL LIABILITIES	4,951,305	417,379	5,368,684
FUND BALANCE			
Reserved for:			
Inventories and prepaids	61,146	16,171	77,317
Debt service	-	429,999	429,999
Unreserved			
Designated for:			
Capital projects	-	579,842	579,842
Other purposes	539,733	-	539,733
Subsequent year's expenditures	-	14,250	14,250
Undesignated, reported in:			
General fund	2,422,867	-	2,422,867
Special revenue funds	-	203,861	203,861
TOTAL FUND BALANCE	3,023,746	1,244,123	4,267,869
TOTAL LIABILITIES AND FUND BALANCE	\$ 7,975,051	\$ 1,661,502	\$ 9,636,553

See accompanying notes to financial statements.

Charlotte Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 4,267,869

Amounts reported for the governmental activities in the statement of net assets are different because:

Noncurrent assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 80,022,001	
Accumulated depreciation is	<u>(20,294,134)</u>	
	59,727,867	
Deferred charges, net of ammortization	<u>464,834</u>	60,192,701

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Deferred amounts on refunding	1,289,979	
Bonds and loans payable	(62,423,727)	
Accrued interest payable	(537,813)	
Severance pay	<u>(37,903)</u>	<u>(61,709,464)</u>

Net assets of governmental activities \$ 2,751,106

See accompanying notes to financial statements.

Charlotte Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 3,255,676	\$ 5,069,797	\$ 8,325,473
State sources	21,905,325	83,024	21,988,349
Federal sources	658,043	461,118	1,119,161
OTHER FINANCING SOURCES			
Transfers from other funds	76,000	384,519	460,519
Bond and loan proceeds	-	8,274,306	8,274,306
County special education allocation	250,951	-	250,951
Payments from other governments	113,468	-	113,468
Other transactions	232,522	-	232,522
TOTAL REVENUES AND OTHER FINANCING SOURCES	26,491,985	14,272,764	40,764,749
EXPENDITURES			
Current			
Instruction	15,319,110	-	15,319,110
Supporting services	9,056,385	-	9,056,385
Community service	875,244	-	875,244
Food service	-	1,129,386	1,129,386
Athletics	-	556,303	556,303
Performing arts	-	248,574	248,574
Debt service			
Principal retirement	-	1,397,551	1,397,551
Interest, fiscal and other charges	-	2,764,652	2,764,652
Capital outlay	-	435,177	435,177
OTHER FINANCING USES			
Transfers to other funds	384,519	76,000	460,519
Bond discount	-	59,477	59,477
Transfer to escrow agent	-	7,442,175	7,442,175
Payments to other districts	737,572	-	737,572
Other transactions	13,576	-	13,576
TOTAL EXPENDITURES AND OTHER FINANCING USES	26,386,406	14,109,295	40,495,701
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	105,579	163,469	269,048
Fund balances, beginning of year	2,918,167	1,080,654	3,998,821
Fund balances, end of year	\$ 3,023,746	\$ 1,244,123	\$ 4,267,869

See accompanying notes to financial statements.

Charlotte Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds \$ 269,048

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	633,565	
Depreciation expense	<u>(2,454,107)</u>	
Excess of depreciation expense over capital outlay		(1,820,542)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Net effect of long-term debt issuance and related items	7,167,146	
Amortization of deferred amounts	(56,086)	
Bond principal retirement	1,397,551	
Bond and loan proceeds (including SBLF interest)	<u>(8,460,417)</u>	
Excess of bond principal retirement over bond proceeds		48,194

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(36,985)	
Decrease in accrued severance pay	<u>2,582</u>	
		<u>(34,403)</u>

Change in net assets of governmental activities \$ (1,537,703)

See accompanying notes to financial statements.

Charlotte Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,412	\$ 101,319
Investments	47,955	58,000
Total current assets	62,367	159,319
Noncurrent assets		
Investments	15,326	-
TOTAL ASSETS	<u>\$ 77,693</u>	<u>\$ 159,319</u>
LIABILITIES		
Due to individuals		
High School	\$ -	\$ 95,197
Middle School	-	54,804
Galewood Elementary	-	1,304
Parkview Elementary	-	569
Washington Elementary	-	5,485
Weymouth Elementary	-	1,960
TOTAL LIABILITIES	-0-	<u>\$ 159,319</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 77,693</u>	

See accompanying notes to financial statements.

Charlotte Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	
Interest	\$ 5,319
DEDUCTIONS	
Other supporting services	<u>107,760</u>
CHANGE IN NET ASSETS	(102,441)
Net assets - beginning of year	<u>180,134</u>
Net assets - end of year	<u><u>\$ 77,693</u></u>

See accompanying notes to financial statements.

Charlotte Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Charlotte Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Charlotte Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the last approved May 8, 2006.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

Investments during the year consisted of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$4,268,904 due from other governmental units, \$3,984,312 consists of State Aid and the remaining \$284,592 from other governmental grants.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 except for new computers, printers, data projectors and televisions which have no cost threshold and all new classrooms (recorded at total content cost) and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	15 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	7 - 25 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2006, and anticipated State Aid is expected to be sufficient to cover this commitment.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements as a current liability.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Property Taxes - continued

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7.59 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

15. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$2,404,258 and the bank balance was \$2,702,315, of which \$516,069 was covered by federal depository insurance. The balance of \$2,186,246 was uninsured and uncollateralized. The District had \$892 cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Charlotte Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (Days)</u>
Uncategorized - Pooled investment funds			
Allegiant Treasury Money Market Fund	\$ 418,502	\$ 418,502	365
Dreyfus Government Cash Management Fund	1,997,830	1,997,830	40
School Cash Investment Fund	<u>244,293</u>	<u>244,293</u>	20
	<u>\$ 2,660,625</u>	<u>\$ 2,660,625</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investment in the School Cash Investment Fund had a rating of A1P1. The Dreyfus Government Cash Management Fund and Allegiant Treasury Money Market Fund were not rated by NRSRO's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 4,721,003	\$ 115,731	\$ 4,836,734
Investments - current	107,760	105,955	213,715
Investments - noncurrent	<u>-</u>	<u>15,326</u>	<u>15,326</u>
	<u>\$ 4,828,763</u>	<u>\$ 237,012</u>	<u>\$ 5,065,775</u>

Charlotte Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance <u>July 1, 2005</u>	Additions/ <u>Reclassifications</u>	Deletions/ <u>Reclassifications</u>	Balance <u>June 30, 2006</u>
Capital assets not being depreciated				
Land	\$ 220,496	\$ -	\$ -	\$ 220,496
Capital assets being depreciated				
Buildings and additions	66,584,997	91,426	-	66,676,423
Equipment and furniture	7,887,123	306,720	173,020	8,020,823
Vehicles	1,990,667	199,947	4,600	2,186,014
Other capital equipment	<u>2,882,773</u>	<u>35,472</u>	<u>-</u>	<u>2,918,245</u>
Subtotal of capital assets being depreciated	79,345,560	633,565	177,620	79,801,505
Less accumulated depreciation for:				
Buildings and additions	(10,246,086)	(1,659,661)	-	(11,905,747)
Equipment and furniture	(4,425,451)	(476,307)	(172,966)	(4,728,792)
Vehicles	(1,697,414)	(99,027)	(4,600)	(1,791,841)
Other capital equipment	<u>(1,648,696)</u>	<u>(219,058)</u>	<u>-</u>	<u>(1,867,754)</u>
Subtotal	<u>(18,017,647)</u>	<u>(2,454,053)</u>	<u>(177,566)</u>	<u>(20,294,134)</u>
Net capital assets being depreciated	<u>61,327,913</u>	<u>(1,820,488)</u>	<u>54</u>	<u>59,507,371</u>
Capital assets, net	<u>\$ 61,548,409</u>	<u>\$(1,820,488)</u>	<u>\$ 54</u>	<u>\$ 59,727,867</u>

The current year depreciation expense of \$2,454,053 has been adjusted by \$54 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Total depreciation expense of \$2,454,107 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: SHORT-TERM NOTES

On August 19, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of \$2,000,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$2,000,000 at June 30, 2006, is reported in the General Fund under the caption short-term notes payable. The outstanding balance is due August 18, 2006.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
2005 Refunding Bonds	\$33,705,000	\$ -	\$ 75,000	\$33,630,000	\$ 75,000
1999 School Buildings and Site General Obligation Bonds	3,500,000	-	800,000	2,700,000	850,000
2002 School Buildings and Site General Obligation Bonds	20,875,000	-	7,510,000	13,365,000	550,000
2006 Refunding Bonds	-	7,500,000	-	7,500,000	-
1998 Durant Resolution Bonds	297,642	-	22,551	275,091	107,760
Michigan School Bond Loans					
Principal and interest	3,993,219	960,417	-	4,953,636	-
Severance Pay	40,485	-	2,582	37,903	11,737
	62,411,346	8,460,417	8,410,133	62,461,630	1,594,497
Less deferred amounts on refunding	1,346,065	-	56,086	1,289,979	56,086
Total	<u>\$61,065,281</u>	<u>\$ 8,460,417</u>	<u>\$ 8,354,047</u>	<u>\$61,171,651</u>	<u>\$ 1,538,411</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$33,705,000 Refunding Bonds dated May 4, 2005, due in annual installments ranging from \$75,000 to \$2,185,000 through May 1, 2029, with interest ranging from 3.00 to 5.00 percent, payable semi-annually.	\$ 33,630,000
\$40,660,000 School Buildings and Site General Obligation Bonds dated July 13, 1999, due in annual installments ranging from \$850,000 to \$950,000 through May 1, 2009, with interest ranging from 5.00 to 5.25 percent, payable semi-annually.	2,700,000
\$22,175,000 School Buildings and Site General Obligation Bonds dated March 1, 2002, due in annual installments ranging from \$365,000 to \$1,200,000 through May 1, 2023, with interest ranging from 4.30 to 5.00 percent, payable semi-annually.	13,365,000
\$7,500,000 Refunding Bonds dated March 1, 2006, due in annual installments ranging from \$50,000 to \$1,660,000 through May 1, 2027, with interest ranging from 4.00 to 4.25 percent, payable semi-annually.	<u>7,500,000</u>
	<u>\$ 57,195,000</u>

Resolution Bonds

\$465,889 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$24,750 to \$107,760, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 275,091</u>
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Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.125 to 4.685 percent.

The School District borrowed \$774,306 in principal during this fiscal year. The balances at June 30, 2006 are as follows:

Principal balance	\$ 4,436,579
Interest balance	<u>517,057</u>
	<u>\$ 4,593,636</u>

Advance Refunding - Current

On March 1, 2006 the District defeased the portion of the 2002 School Building and Site Bonds, which are due and payable May 1, 2024 through May 1, 2027. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2006 Refunding Bonds in the amount of \$7,500,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2024 through May 1, 2027 for the 2002 School Building and Site Bonds in the amount of \$7,010,000 are considered defeased.

As a result of the advance refunding, the District decreased its total debt service requirements by \$436,801, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$355,527.

Advance Refunding - Prior

On May 4, 2005 the District defeased the portion of the 1999 School Building and Site Bonds, which are due and payable May 1, 2010 through May 1, 2029. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2005 Refunding Bonds in the amount of \$33,705,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2010 through May 1, 2029 for the 1999 School Building and Site Bonds in the amount of \$33,350,000 are considered defeased.

Severance Pay

In recognition of services to the District, a severance payment is made to eligible administrators with at least ten (10) years of service. Eligible administrators will be paid up to a maximum of ninety-five days of accumulated sick leave at a rate of \$70 per day.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 18,620	\$ 16,590	\$ 35,210
Payroll taxes	<u>1,424</u>	<u>1,269</u>	<u>2,693</u>
	<u>\$ 20,044</u>	<u>\$ 17,859</u>	<u>\$ 37,903</u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 107,760	\$ 46,623	\$ 1,475,000	\$ 2,704,426
2008	24,750	7,967	1,550,000	2,579,558
2009	25,928	6,789	1,630,000	2,500,564
2010	27,162	5,554	1,700,000	2,427,101
2011	28,455	4,261	1,785,000	2,359,613
2012-2016	61,036	4,393	10,280,000	10,536,539
2017-2021	-	-	13,440,000	7,740,587
2022-2026	-	-	17,165,000	4,147,320
2027-2029	<u>-</u>	<u>-</u>	<u>8,170,000</u>	<u>560,300</u>
	<u>\$ 275,091</u>	<u>\$ 75,587</u>	<u>\$57,195,000</u>	<u>\$35,556,008</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 267,811</u>
Due to nonmajor governmental funds from:	
General fund	\$ 4,997
Nonmajor governmental funds	<u>12,650</u>
	<u>\$ 17,647</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ <u>76,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ <u>384,519</u>

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$15,331,057 of which \$11,333,614 was for members who have elected the MIP option; the District's total payroll was \$15,567,828.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 437,672	\$ 2,453,088	\$ 2,890,760
2005	442,204	2,261,249	2,703,453
2004	440,740	2,039,866	2,480,606

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0%	16.0%
2005	4.0	14.4
2004	4.0	13.0

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories and prepaids	\$ <u>61,146</u>
Nonmajor governmental funds	
Reserved for inventories and prepaids	\$ 16,171
Reserved for debt service	<u>429,999</u>
	\$ <u>446,170</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following are the fund balance designations as of June 30, 2006:

General Fund		
Designated for other purposes		
Technology replacement	\$	500,000
Aquatics center maintenance		14,397
Child care		<u>25,336</u>
	\$	<u>539,733</u>
Nonmajor governmental funds		
Designated for subsequent year's expenditures	\$	14,250
Designated for capital projects		<u>579,842</u>
	\$	<u>594,092</u>

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the budgetary comparison schedules, the District's budgeted expenditures in the General Fund have been adopted and shown at the functional classification level. Budgeted expenditures for Special Revenue Funds have not been presented.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Basic programs	\$11,318,563	\$11,329,394	\$ 10,831
Student services	1,034,440	1,041,649	7,209
Transportation	1,337,375	1,442,737	105,362
Other financing uses	1,110,570	1,135,667	25,097
Special Revenue Funds			
Athletics	540,518	556,303	15,785

NOTE K: FLEXIBLE BENEFITS PLAN

In February 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, who are salaried or hourly and scheduled to twenty (20) hours or more each week, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by Charlotte Public Schools.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Charlotte Public Schools, a nonplaintiff District, was awarded \$931,778 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE N: BONDED CONSTRUCTION FUNDS

The Capital Project Funds of the District include the capital projects activities funded in part by the Durant Resolution Bonds dated November 15, 1998, the 1999 Building and Site General Obligation Bonds, and the 2002 Building and Site General Obligation Bonds. The remaining funding for the activities recorded within the Capital Project Funds is funded by local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Funds, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years. The Durant Resolution Bond, 1999 Bond construction, and 2002 Bond construction projects were substantially completed in prior years and their applicable bond audits were done at that time.

Charlotte Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE O: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the year, which was the result of correction of an accounting presentation. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

		June 30,		
	<u>2006</u>	<u>2005</u>	<u>Description</u>	
PRIMARY GOVERNMENT				
Governmental Activities				
Deferred charges, net of amortization	\$ -	\$ 307,688	To correct understated	
Change in net assets	-	307,688	deferred charges	
Net assets - beginning	307,688	-		

REQUIRED SUPPLEMENTARY INFORMATION

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 3,170,305	\$ 3,258,935	\$ 3,255,676	\$ (3,259)
State sources	21,683,383	22,038,497	21,905,325	(133,172)
Federal sources	635,949	680,895	658,043	(22,852)
OTHER FINANCING SOURCES				
Transfers from other funds	86,000	78,617	76,000	(2,617)
County special education allocation	252,000	252,000	250,951	(1,049)
Payments from other governments	68,420	113,920	113,468	(452)
Other transactions	52,000	17,500	232,522	215,022
TOTAL REVENUES AND OTHER FINANCING SOURCES	25,948,057	26,440,364	26,491,985	51,621
EXPENDITURES				
INSTRUCTION				
Basic programs				
Preschool	118,611	109,294	99,934	9,360
Elementary	4,328,396	4,319,654	4,315,432	4,222
Middle school	3,714,108	3,660,271	3,669,398	(9,127)
High School	2,695,543	2,768,223	2,789,964	(21,741)
Youth facility	125,405	136,102	129,475	6,627
Class size reduction	101,876	99,851	100,360	(509)
Other basic programs	224,462	225,168	224,831	337
Total basic programs	11,308,401	11,318,563	11,329,394	(10,831)
Added needs				
Special education	2,576,481	2,521,523	2,539,564	(18,041)
Compensatory education	808,122	845,741	825,518	20,223
Vocational education	618,087	521,536	519,329	2,207
Total added needs	4,002,690	3,888,800	3,884,411	4,389
Adult and continuing education	110,218	105,479	105,305	174
TOTAL INSTRUCTION	15,421,309	15,312,842	15,319,110	(6,268)

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
SUPPORTING SERVICES				
Student services				
Guidance services	\$ 768,712	\$ 786,886	\$ 784,804	\$ 2,082
Health services	12,700	11,450	10,724	726
Social work services	49,030	49,790	49,918	(128)
Teacher consultants	105,564	87,565	90,560	(2,995)
Other pupil services	115,982	98,749	105,643	(6,894)
Total student services	1,051,988	1,034,440	1,041,649	(7,209)
Instructional staff				
Improvement of instruction	132,234	118,296	90,588	27,708
Media services	900,419	945,014	933,834	11,180
Supervision and direction of instruction staff	180,231	172,932	171,961	971
Director of Special Education	151,693	152,718	152,741	(23)
Other instructional staff	73,440	72,651	74,887	(2,236)
Total instructional staff	1,438,017	1,461,611	1,424,011	37,600
General administration				
Board of education	105,400	115,400	96,476	18,924
Executive administration	241,491	240,619	231,379	9,240
Total general administration	346,891	356,019	327,855	28,164
School administration	1,543,084	1,496,480	1,487,913	8,567
Business				
Fiscal services	326,387	321,161	317,951	3,210
Other business services	55,900	125,055	116,286	8,769
Total business	382,287	446,216	434,237	11,979
Operations and maintenance	2,586,239	2,812,888	2,774,629	38,259
Transportation	1,365,251	1,337,375	1,442,737	(105,362)

Charlotte Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
SUPPORTING SERVICES - CONTINUED				
Other supporting services				
Communication services	\$ 43,693	\$ 43,693	\$ 33,282	\$ 10,411
Personnel services	71,151	85,511	90,072	(4,561)
Total other supporting services	114,844	129,204	123,354	5,850
TOTAL SUPPORTING SERVICES	8,828,601	9,074,233	9,056,385	17,848
COMMUNITY SERVICES				
Direction	64,229	67,368	66,121	1,247
Community recreation	351,685	386,199	396,165	(9,966)
Childcare	326,640	272,653	270,767	1,886
Performing Arts Center	137,359	156,152	142,191	13,961
TOTAL COMMUNITY SERVICES	879,913	882,372	875,244	7,128
TOTAL EXPENDITURES	25,129,823	25,269,447	25,250,739	18,708
OTHER FINANCING USES				
Transfers to other funds	325,705	380,001	384,519	(4,518)
Payments to other districts	379,893	717,915	737,572	(19,657)
Other transactions	112,636	12,654	13,576	(922)
TOTAL OTHER FINANCING USES	818,234	1,110,570	1,135,667	(25,097)
TOTAL EXPENDITURES AND OTHER FINANCING USES	25,948,057	26,380,017	26,386,406	(6,389)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	60,347	105,579	45,232
Fund balance, beginning of year	2,918,167	2,918,167	2,918,167	-0-
Fund balance, end of year	<u>\$ 2,918,167</u>	<u>\$ 2,978,514</u>	<u>\$ 3,023,746</u>	<u>\$ 45,232</u>

OTHER SUPPLEMENTARY INFORMATION

Charlotte Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds			Debt
	Food Service	Athletics	Performing Arts	2006 Debt
ASSETS				
Cash and cash equivalents	\$ 393,920	\$ 107,246	\$ 9,860	\$ 208,983
Accounts receivable	5,896	-	740	-
Taxes receivable	-	-	-	972
Due from other funds	-	-	4,997	-
Due from other governmental units	-	-	-	-
Inventories	12,557	-	-	-
Prepays	-	-	3,614	-
TOTAL ASSETS	\$ 412,373	\$ 107,246	\$ 19,211	\$ 209,955
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 500	\$ -
Accrued payroll	5,478	13,589	714	-
Other accrued liabilities	11,561	3,260	1,315	-
Due to other funds	250,821	192	-	1,082
Deferred revenue	718	-	16,400	-
TOTAL LIABILITIES	268,578	17,041	18,929	1,082
FUND BALANCES				
Reserved for				
Inventories and prepaid expenditures	12,557	-	3,614	-
Debt service	-	-	-	208,873
Unreserved				
Designated for:				
Capital projects	-	-	-	-
Subsequent year's expenditures	-	14,250	-	-
Undesignated, reported in				
Special revenue funds	131,238	75,955	(3,332)	-
TOTAL FUND BALANCES	143,795	90,205	282	208,873
TOTAL LIABILITIES AND FUND BALANCES	\$ 412,373	\$ 107,246	\$ 19,211	\$ 209,955

Service Funds				Capital Project Funds		Total
2005 Debt	2002 Debt	1999 Debt	Durant Debt Service	2002 Bond Projects	1999 Bond Projects	
\$ 43,694	\$ 66,961	\$ 63,234	\$ -	\$ 418,503	\$ 244,293	\$ 1,556,694
-	-	-	-	-	-	6,636
5,186	15,562	39,462	-	-	-	61,182
-	1,082	-	-	-	11,568	17,647
999	1,337	836	-	-	-	3,172
-	-	-	-	-	-	12,557
-	-	-	-	-	-	3,614
<u>\$ 49,879</u>	<u>\$ 84,942</u>	<u>\$ 103,532</u>	<u>\$ -0-</u>	<u>\$ 418,503</u>	<u>\$ 255,861</u>	<u>\$ 1,661,502</u>
\$ -	\$ -	\$ -	\$ -	\$ 34,803	\$ 48,151	\$ 83,454
-	-	-	-	-	-	19,781
135	181	113	-	-	-	16,565
5,438	6,965	4,395	-	11,568	-	280,461
-	-	-	-	-	-	17,118
5,573	7,146	4,508	-0-	46,371	48,151	417,379
-	-	-	-	-	-	16,171
44,306	77,796	99,024	-	-	-	429,999
-	-	-	-	372,132	207,710	579,842
-	-	-	-	-	-	14,250
-	-	-	-	-	-	203,861
<u>44,306</u>	<u>77,796</u>	<u>99,024</u>	<u>-0-</u>	<u>372,132</u>	<u>207,710</u>	<u>1,244,123</u>
<u>\$ 49,879</u>	<u>\$ 84,942</u>	<u>\$ 103,532</u>	<u>\$ -0-</u>	<u>\$ 418,503</u>	<u>\$ 255,861</u>	<u>\$ 1,661,502</u>

Charlotte Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year ended June 30, 2006

	Special Revenue Funds			Debt
	Food Service	Athletics	Performing Arts	2006 Debt
REVENUES				
Local sources	\$ 643,390	\$ 246,214	\$ 216,907	\$ 209,098
State sources	50,308	-	-	-
Federal sources	461,118	-	-	-
OTHER FINANCING SOURCES				
Transfers from other funds	-	352,852	31,667	-
Bond and loan proceeds	-	-	-	7,500,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,154,816	599,066	248,574	7,709,098
EXPENDITURES				
Current				
Food service	1,129,386	-	-	-
Athletics	-	556,303	-	-
Performing arts	-	-	248,574	-
Debt service				
Principal retirement	-	-	-	-
Interest, fiscal and other charges	-	-	-	119,573
Capital outlay	-	-	-	-
OTHER FINANCING USES				
Transfers to other funds	76,000	-	-	-
Bond discount	-	-	-	59,477
Transfer to escrow agent	-	-	-	7,321,175
TOTAL EXPENDITURES AND OTHER FINANCING USES	1,205,386	556,303	248,574	7,500,225
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(50,570)	42,763	-0-	208,873
Fund balances, beginning of year	194,365	47,442	282	-
Fund balances, end of year	\$ 143,795	\$ 90,205	\$ 282	\$ 208,873

Service Funds				Capital Project Funds		Total
2005 Debt	2002 Debt	1999 Debt	Durant Debt Service	2002 Bond Projects	1999 Bond Projects	
\$ 1,159,400	\$ 1,330,448	\$ 956,589	\$ -	\$ 114,645	\$ 193,106	\$ 5,069,797
-	-	-	32,716	-	-	83,024
-	-	-	-	-	-	461,118
-	-	-	-	-	-	384,519
553,679	174,686	45,941	-	-	-	8,274,306
1,713,079	1,505,134	1,002,530	32,716	114,645	193,106	14,272,764
-	-	-	-	-	-	1,129,386
-	-	-	-	-	-	556,303
-	-	-	-	-	-	248,574
75,000	500,000	800,000	22,551	-	-	1,397,551
1,603,208	836,318	195,388	10,165	-	-	2,764,652
-	-	-	-	272,611	162,566	435,177
-	-	-	-	-	-	76,000
-	-	-	-	-	-	59,477
-	121,000	-	-	-	-	7,442,175
1,678,208	1,457,318	995,388	32,716	272,611	162,566	14,109,295
34,871	47,816	7,142	-0-	(157,966)	30,540	163,469
9,435	29,980	91,882	-	530,098	177,170	1,080,654
\$ 44,306	\$ 77,796	\$ 99,024	\$ -0-	\$ 372,132	\$ 207,710	\$ 1,244,123

Charlotte Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	<u>Lundberg</u>	<u>Christine Wonch</u>	<u>Scholarships</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,457	\$ 298	\$ 6,657	\$ 14,412
Investments	<u>16,955</u>	<u>-</u>	<u>31,000</u>	<u>47,955</u>
Total current assets	24,412	298	37,657	62,367
Noncurrent assets				
Investments	<u>-</u>	<u>15,326</u>	<u>-</u>	<u>15,326</u>
TOTAL ASSETS	<u>\$ 24,412</u>	<u>\$ 15,624</u>	<u>\$ 37,657</u>	<u>\$ 77,693</u>
NET ASSETS				
Held in trust for private purposes	<u>\$ 24,412</u>	<u>\$ 15,624</u>	<u>\$ 37,657</u>	<u>\$ 77,693</u>

Charlotte Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2006

	<u>Lundberg</u>	<u>Christine Wonch</u>	<u>Scholarships</u>	<u>Total</u>
ADDITIONS				
Investment earnings				
Interest	\$ 3,975	\$ 714	\$ 630	\$ 5,319
DEDUCTIONS				
Other supporting services	<u>107,760</u>	<u>-</u>	<u>-</u>	<u>107,760</u>
CHANGE IN NET ASSETS	(103,785)	714	630	(102,441)
Net assets - beginning of year	<u>128,197</u>	<u>14,910</u>	<u>37,027</u>	<u>180,134</u>
Net assets - end of year	<u>\$ 24,412</u>	<u>\$ 15,624</u>	<u>\$ 37,657</u>	<u>\$ 77,693</u>

OTHER FINANCIAL INFORMATION

Charlotte Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING

Year Ended June 30, 2006

	Maturity Date	Interest Rate	Interest	Principal	Total
GENERAL OBLIGATION BONDS					
2002 School Building and Site					
Bonds, dated March 1, 2002					
	May 1, 2007	4.75	\$ 616,531	\$ 550,000	\$ 1,166,531
	May 1, 2008	4.75	589,812	575,000	1,164,812
	May 1, 2009	4.75	561,906	600,000	1,161,906
	May 1, 2010	4.50	533,594	625,000	1,158,594
	May 1, 2011	4.50	504,344	675,000	1,179,344
	May 1, 2012	4.50	473,406	700,000	1,173,406
	May 1, 2013	4.30	441,531	750,000	1,191,531
	May 1, 2014	4.40	408,356	775,000	1,183,356
	May 1, 2015	4.50	373,306	800,000	1,173,306
	May 1, 2016	4.60	336,331	825,000	1,161,331
	May 1, 2017	4.70	296,794	875,000	1,171,794
	May 1, 2018	4.75	254,857	900,000	1,154,857
	May 1, 2019	4.88	209,716	975,000	1,184,716
	May 1, 2020	4.90	160,225	1,050,000	1,210,225
	May 1, 2021	5.00	106,375	1,125,000	1,231,375
	May 1, 2022	5.00	48,250	1,200,000	1,248,250
	May 1, 2023	5.00	9,125	365,000	374,125
			5,924,459	13,365,000	19,289,459
2006 Refunding Bonds,					
dated March 1, 2006					
	May 1, 2007		357,168	-	357,168
	May 1, 2008		306,144	-	306,144
	May 1, 2009		306,144	-	306,144
	May 1, 2010		306,144	-	306,144
	May 1, 2011		306,144	-	306,144
	May 1, 2012		306,144	-	306,144
	May 1, 2013		306,144	-	306,144
	May 1, 2014		306,144	-	306,144
	May 1, 2015		306,144	-	306,144
	May 1, 2016		306,144	-	306,144
	May 1, 2017	4.000	306,144	50,000	356,144
	May 1, 2018	4.000	304,144	50,000	354,144
	May 1, 2019	4.000	302,144	55,000	357,144
	May 1, 2020	4.000	299,944	55,000	354,944
	May 1, 2021	4.000	297,744	55,000	352,744
	May 1, 2022	4.000	295,544	60,000	355,544
	May 1, 2023	4.000	293,144	990,000	1,283,144
	May 1, 2024	4.000	253,544	1,420,000	1,673,544
	May 1, 2025	4.000	196,744	1,510,000	1,706,744
	May 1, 2026	4.125	136,344	1,595,000	1,731,344
	May 1, 2027	4.250	70,550	1,660,000	1,730,550
			5,868,454	7,500,000	13,368,454

Charlotte Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING - CONTINUED

Year Ended June 30, 2006

	Maturity Date	Interest Rate	Interest	Principal	Total
GENERAL OBLIGATION BONDS					
1999 School Building and Site Bonds, dated July 13, 1999					
	May 1, 2007	5.00	\$ 118,376	\$ 850,000	\$ 968,376
	May 1, 2008	5.25	73,501	900,000	973,501
	May 1, 2009	5.25	24,938	950,000	974,938
			216,815	2,700,000	2,916,815
2005 Refunding Bonds, dated May 4, 2005					
	May 1, 2007	3.00	1,612,351	75,000	1,687,351
	May 1, 2008	3.00	1,610,101	75,000	1,685,101
	May 1, 2009	3.50	1,607,576	80,000	1,687,576
	May 1, 2010	3.50	1,587,363	1,075,000	2,662,363
	May 1, 2011	3.50	1,549,125	1,110,000	2,659,125
	May 1, 2012	4.25	1,504,731	1,175,000	2,679,731
	May 1, 2013	4.25	1,453,944	1,215,000	2,668,944
	May 1, 2014	4.50	1,399,326	1,280,000	2,679,326
	May 1, 2015	4.50	1,340,263	1,345,000	2,685,263
	May 1, 2016	5.00	1,274,625	1,415,000	2,689,625
	May 1, 2017	5.00	1,202,000	1,490,000	2,692,000
	May 1, 2018	5.00	1,125,125	1,585,000	2,710,125
	May 1, 2019	5.00	1,044,125	1,655,000	2,699,125
	May 1, 2020	5.00	959,625	1,725,000	2,684,625
	May 1, 2021	5.00	871,625	1,795,000	2,666,625
	May 1, 2022	5.00	780,000	1,870,000	2,650,000
	May 1, 2023	5.00	684,875	1,935,000	2,619,875
	May 1, 2024	5.00	586,375	2,005,000	2,591,375
	May 1, 2025	5.00	484,375	2,075,000	2,559,375
	May 1, 2026	5.00	379,000	2,140,000	2,519,000
	May 1, 2027	5.00	271,625	2,155,000	2,426,625
	May 1, 2028	5.00	163,500	2,170,000	2,333,500
	May 1, 2029	5.00	54,625	2,185,000	2,239,625
			23,546,280	33,630,000	57,176,280
RESOLUTION BONDS					
1998 Durant Resolution Bond, dated November 15, 1998					
	May 15, 2007	4.76	46,623	107,760	154,383
	May 15, 2008	4.76	7,967	24,750	32,717
	May 15, 2009	4.76	6,789	25,928	32,717
	May 15, 2010	4.76	5,554	27,162	32,716
	May 15, 2011	4.76	4,261	28,455	32,716
	May 15, 2012	4.76	2,906	29,809	32,715
	May 15, 2013	4.76	1,487	31,227	32,714
			75,587	275,091	350,678
TOTAL BONDED DEBT OUTSTANDING			<u>\$ 35,631,595</u>	<u>\$ 57,470,091</u>	<u>\$ 93,101,686</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlotte Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charlotte Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the administration and Board of Education of Charlotte Public Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Charlotte Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

Charlotte Public Schools

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Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Charlotte Public Schools
Charlotte, Michigan

Compliance

We have audited the compliance of Charlotte Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Charlotte Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Charlotte Public Schools' management. Our responsibility is to express an opinion on Charlotte Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Charlotte Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Charlotte Public Schools' compliance with those requirements.

In our opinion, Charlotte Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending June 30, 2006.

Internal Control Over Compliance

The management of Charlotte Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Charlotte Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charlotte Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Charlotte Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Charlotte Public Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive, stylized font.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

Charlotte Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I	84.010	(e)	
2005-06 Regular - Part A		0515300506	\$ 1,926
2005-06 Regular - Part A		0615300506	337,331
2005-06 Regular - Part D		0517000506	2,036
2005-06 Regular - Part D		0617000506	24,297
2004-05 Regular - Part A		0515300405	335,405
2004-05 Regular - Part D		0517000405	27,750
			<u>728,745</u>
Title V LEA Allocation	84.298		
2004-05 Part A Innovative		0502500405	2,038
2005-06 Part A Innovative		0602500506	1,372
			<u>3,410</u>
Technology Literacy Challenge Grants	84.318		
2005-06 Ed Tech - Formula Grant		0542900506	7,659
2005-06 Ed Tech - Formula Grant		0642900506	6,293
2004-05 Ed Tech - Formula Grant		0442900405	6,305
2004-05 Ed Tech - Formula Grant		0542900405	914
			<u>21,171</u>
Improving Teacher Quality	84.367		
2005-06		0505200506	47,868
2005-06		0605200506	145,270
2004-05		0505200405	97,136
			<u>290,274</u>
Special Education 94-142	84.027	060440SPSR	4,400
Passed Through State Department of Education and Eaton Intermediate School District			
Special Education 94-142			
Flow Through	84.027		
2004-05		8051050450	100,938
2005-06		8115	1,260
2005-06		80500604450	75,000
Least Restrictive Environment			
2004-05		8051050450	5,000
2005-06		80500604450	4,450
			<u>186,648</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,234,648

<u>Restated (Memo Only) Prior Years' Expenditures</u>	<u>Restated Balance July 1, 2005 Accrued or (Deferred) Revenue</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2006 Accrued or (Deferred) Revenue</u>
\$ -	\$ -	\$ 1,151	\$ 1,926	\$ 775
-	-	299,836	335,250	35,414
-	-	2,036	2,036	-0-
-	-	6,649	12,526	5,877
335,405	112,197	112,197	-	-0-
22,053	12,273	17,970	5,697	-0-
357,458	124,470	439,839	357,435	42,066
-	-	2,038	2,038	-0-
-	-	212	212	-0-
-0-	-0-	2,250	2,250	-0-
-	-	7,659	7,659	-0-
-	-	2,553	3,383	830
6,305	4,904	4,904	-	-0-
914	914	914	-	-0-
7,219	5,818	16,030	11,042	830
-	-	47,868	47,868	-0-
-	-	112,887	134,800	21,913
97,136	61,079	61,079	-	-0-
97,136	61,079	221,834	182,668	21,913
-	-	4,400	4,400	-0-
100,938	100,000	100,000	-	-0-
-	-	-	1,260	1,260
-	-	-	75,000	75,000
5,000	5,000	5,000	-	-0-
-	-	-	4,264	4,264
105,938	105,000	105,000	80,524	80,524
567,751	296,367	789,353	638,319	145,333

Charlotte Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan State Police	97.004		
2003 SHSGP Part II (Training)		N/A	\$ 408
2003 SHSGP Part II (Equipment)		N/A	<u>9,334</u>
			9,742
Passed through Michigan State Police and Eaton County SHSGP	97.004		
		N/A	<u>9,982</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			19,724
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education School Breakfast Program	10.553	(f)	
2005-06		061970	65,176
2004-05		051970	<u>71,488</u>
			136,664
National School Lunch Program	10.555	(f)	
2005-06		061950,061960	278,725
2004-05		051950,051960	303,412
2005-06		061980	2,127
2004-05		051980	<u>886</u>
			585,150
Food Donation (a)	10.550		
Entitlement commodities		23030	56,799
Bonus commodities		23030	<u>3,855</u>
			<u>60,654</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			782,468
TOTAL FEDERAL AWARDS			<u>\$ 2,036,840</u>

<u>Restated (Memo Only) Prior Years' Expenditures</u>	<u>Restated Balance July 1, 2005 Accrued or (Deferred) Revenue</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2006 Accrued or (Deferred) Revenue</u>
\$ -	\$ -	\$ 408	\$ 408	\$ -0-
-	-	9,334	9,334	-0-
-0-	-0-	9,742	9,742	-0-
-	-	9,982	9,982	-0-
-0-	-0-	19,724	19,724	-0-
-	-	65,176	65,176	-0-
63,248	-	8,240	8,240	-0-
63,248	-0-	73,416	73,416	-0-
-	-	278,725	278,725	-0-
257,468	-	45,944	45,944	-0-
-	-	2,127	2,127	-0-
634	-	252	252	-0-
258,102	-0-	327,048	327,048	-0-
-	-	56,799	56,799	-0-
-	-	3,855	3,855	-0-
-0-	-0-	60,654	60,654	-0-
321,350	-0-	461,118	461,118	-0-
<u>\$ 889,101</u>	<u>\$ 296,367</u>	<u>\$ 1,270,195</u>	<u>\$ 1,119,161</u>	<u>\$ 145,333</u>
		(d)	(g)	(b)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2006, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Charlotte Public Schools
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information Charlotte Public Schools, Michigan as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlotte Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education and administration of Charlotte Public Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Charlotte Public Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Title I (CFDA 84.010) program. Total Federal expenditures for the year ended June 30, 2006 for the major program was \$357,435, which is approximately 32 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Charlotte Public Schools qualified as a low-risk auditee for the year ended June 30, 2006.

The District had two (2) Type A programs, they were the Title I (CFDA 84.010; \$357,435) and the Child Nutrition Cluster (\$400,464), which included the School Breakfast (CFDA 10.553) and National School Lunch (CFDA 10.555) programs. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.